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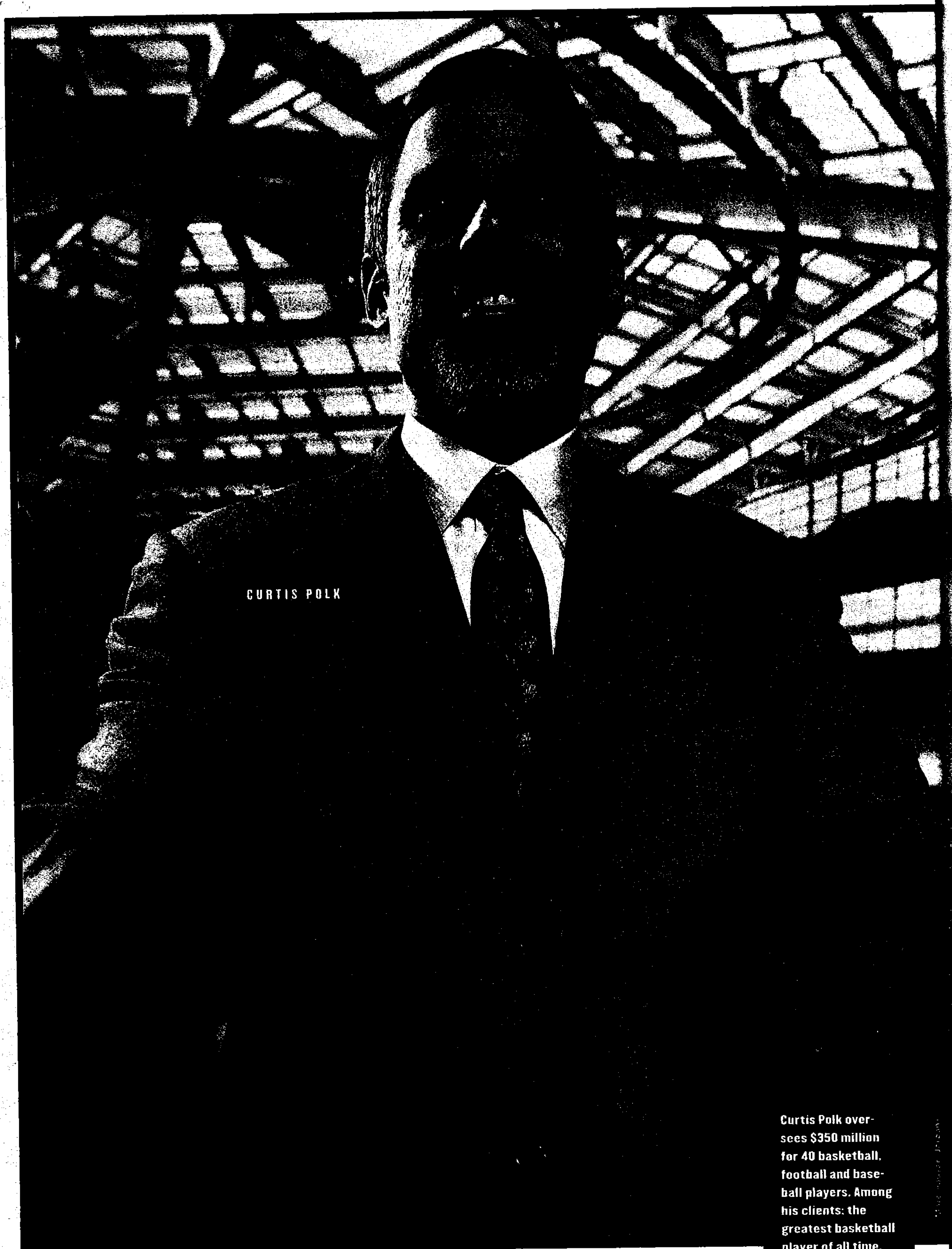
THE BEST ADVICE MONEY CAN BUY

What MICHAEL JORDAN'S financial pro and other top wealth managers are investing in now *Page 60*



Curtis Polk oversees $350 million for 40 basketball, football and baseball players. Among his clients: the greatest basketball player of all time.

PHOTOGRAPH BY RANDY HARRIS

THE BEST MONEY CAN BUY

BY NICK PACHETTI
WITH JOAN CAPLIN

THESE ADVISERS MANAGE THE MONEY OF TOP ACTORS, ATHLETES AND CEOs. NOW THEY SHARE THEIR INVESTMENT IDEAS WITH THE REST OF US.

THEY HAVE MORE MONEY than most people would probably know what to do with. From Texas Rangers shortstop Alex Rodriguez, who inked a $252 million, 10-year contract last year, to Tom Cruise and Julia Roberts, who net $20 million a picture; from CEOs with their ever-increasing options packages, to retired politicians balancing speaking tours and lobbying gigs—not to mention news anchors and talk show hosts with million-dollar salaries and book contracts—top celebrities can really haul in the dollars.

But making money is one thing—knowing what to do with it is something else. After all, the tabloids are riddled with stories of stars who somehow lost it all. So where do smart celebs turn for help with managing their finances?

It turns out there is a network of high-powered yet low-profile wealth managers who cater almost exclusively to the cultural elite. And we were able to get access to five of the best in the world, who advise more than 700 clients at the apex of the athletic, entertainment and business worlds. Many of the tasks these managers to the stars perform are familiar to financial planners everywhere. They invest in stocks, set up retirement accounts and purchase insurance. But their clients also present unique challenges—potentially short careers, feast or famine income streams and, of course, big egos. "You've got to have dynamic portfolios," says Phil Kenner, who manages money for musical group 'NSync and hockey great Mark Messier, among others, "because every time there's a new movie or record contract your time horizon changes."

POWERS LOVES THAT EXECS AT ENERGY FIRM KINDER MORGAN ARE ALIGNED WITH SHAREHOLDERS: THE CEO OWNS 22% OF THE STOCK AND PAYS HIMSELF $1 IN SALARY WITH NO BONUS.

Still, strategies geared to the superrich can provide tangible lessons for every type of investor—about risk, asset allocations and setting and achieving goals. The investment philosophies and stock and fund picks they set forth in the pages that follow provide an inside peek at what the best advisers money can buy are telling their clients to do right now.

CURTIS POLK SFX FINANCIAL

Clients: Michael Jordan, Dikembe Mutombo, Patrick Ewing, Glen Rice

Curtis Polk isn't what you'd call a Hollywood type. For one thing, he lives in Bethesda, Md. And he manages money for athletes like Michael Jordan. But it's because he does such a good job handling His Airness' finances that he was tapped to help produce Jordan's 1996 hit film *Space Jam* (also starring Bugs Bunny).

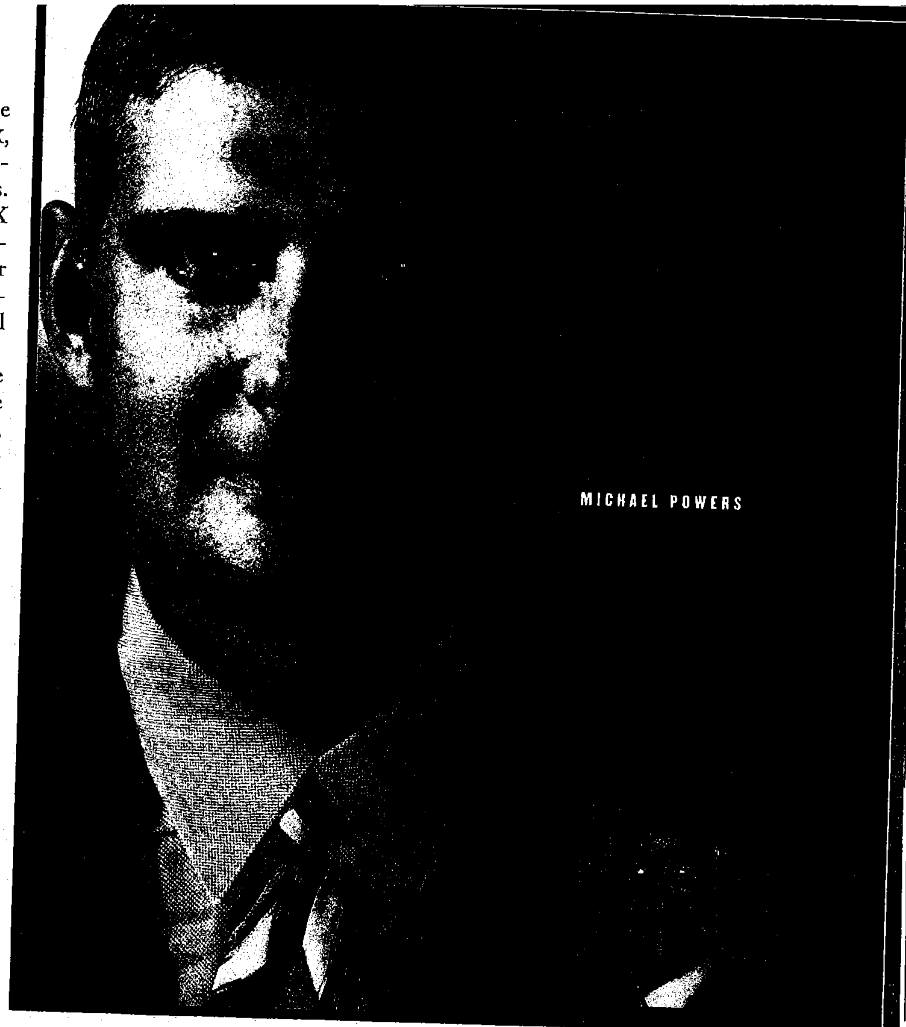
While he may not be able to take full credit for that performance, he certainly can for his own work. Polk helped found Falk Associates Management Enterprises, or FAME, with sports

PICKS OF THE PROS HERE ARE THE INVESTMENTS AMERICA'S PLANNERS TO THE STARS ARE BUYING NOW.

	COMPANY (TICKER)	PRICE	P/E	COMMENTS
POWERS	Kinder Morgan (KMI)	$53.35	29	Management owns a large stake in the company; with plenty of natural gas assets, it's well positioned to take advantage of surging demand.
POWERS	Freddie Mac (FRE)	69.89	17	Freddie Mac stands to benefit from increased issuance of mortgage-backed securities. It should continue to gain market share thanks to the company's access to low-cost financing.
POWERS	Tenet Healthcare (THC)	50.97	23	Higher revenues are expected from future strategic acquisitions. Lower costs via outsourcing labor are boosting profits now.
JONES/GRAY	AIG (AIG)	85.02	30	Already well-established position in Asia; AIG's acquisition of SunAmerica will provide growth from the rapidly expanding retirement services market.
JONES/GRAY	IBM (IBM)	112.87	23	As a leader in e-business consulting, IBM gets critical recurring revenues during down cycles for hardware. It is also introducing new server and storage products.
JONES/GRAY	United Technologies (UTX)	73.47	18	The company would benefit greatly from proposed increases in defense spending. Demand for aircraft engines from Boeing and Airbus is picking up.
KENNER	Kroger (KR)	24.88	16	Kroger is beginning to realize cost savings from its 1999 acquisition of Fred Meyer. Gross margins are likely to widen, thanks to higher sales from private-label products.
KENNER	American Express (AXP)	40.75	20	Working hard to position itself for a market turnaround, American Express is broadening its product line and expanding its charge-card network.

	FUND (TICKER)	TELEPHONE (800)	THREE-YEAR RETURN[1]	COMMENTS
POLK	Legg Mason Opportunity (LMOPX)	577-8589	N.A.	Just a year and a half old, this fund's small asset base gives manager Bill Miller flexibility.
POLK	Legg Mason Value (LMVTX)	577-8589	14.26	Legg Mason Value is the fund that made Bill Miller famous; it has beaten the S&P 500 for 10 straight years.

Notes: All data as of June 22. Price/earnings ratios based on 2001 projected earnings. [1]Annualized. Sources: Baseline, Morningstar.



agent David Falk in 1992. Three years ago, FAME merged with SFX, one of the top producers and promoters of entertainment events. Today Polk, 41, is president of SFX Financial, the firm's investment advisory arm, where he oversees over $350 million in assets for 40 clients—primarily basketball, baseball and football players.

The asset-allocation model he uses for new clients depends on the sports they play. Football contracts, for example, are usually not guaranteed. That makes asset allocation difficult, considering that one career-ending injury can change overnight a client's ability to withstand short-term investing losses. Baseball players, on the other hand, can languish for years in the minors before making it to the big leagues—and the big bucks. Basketball clients are by far the easiest to work with, says Polk, because their incomes are more predictable. Top NBA rookies typically receive three-year guaranteed contracts of up to $10 million, making it a sport "very conducive to conservative investing."

What he means by conservative is 60% in equities and 40% in bonds and cash. Baseball players get a 70%-30% mix. "Baseball players need the growth," he says. Regardless, every account has one goal in common: Forty percent of total assets must be remaining after an athlete's first three earning years. "Taxes and living expenses typically take out 60%," he says. "So if you're under 30%, you've done poorly."

But that rarely happens with his clients. Last September, for example, he was optimistic about the markets and increased his equity stake. Polk doesn't buy individual securities but relies almost exclusively on mutual funds. After seeing some earnings announcements in the third quarter, however, he pulled back. "Most of our clients get paid from November to April, so we hoarded cash and bonds," he says. Polk says that this strategy helped the equity portion of his portfolio end the year roughly flat last year, while the S&P 500 was down 9%.

In April and May, Polk shifted his portfolio to large-cap value and small-cap funds, avoiding large-cap growth and international altogether. For value he likes Bill Miller's $13 billion **Legg Mason Value** fund, which has beaten the S&P 500 for the past 10 years. He also invests his clients in the **Legg Mason Opportunity** fund. The $1.7 billion fund is more nimble than its larger cousin, giving Miller more room to navigate. "It's Bill Miller not having limitations, and he's been phenomenal this year," Polk says. Indeed, Miller's Opportunity fund is up 11.8% as of June 22; the S&P 500 is down 6.7% for the same period.

MICHAEL POWERS
BEL AIR INVESTMENT ADVISORS

Clients: Lee Iacocca, Geraldo Rivera, Barbra Streisand

Michael Powers doesn't categorize. While he might manage investments for actors, producers and CEOs, he doesn't think they can be compared. "Every person is unique," he says. "It really comes down to risk tolerance." Powers, 36, manages $4 billion for about 200 clients.

Powers manages a diverse clientele, from executives like Lee Iacocca to entertainers like Barbra Streisand and TV hosts like Geraldo Rivera.

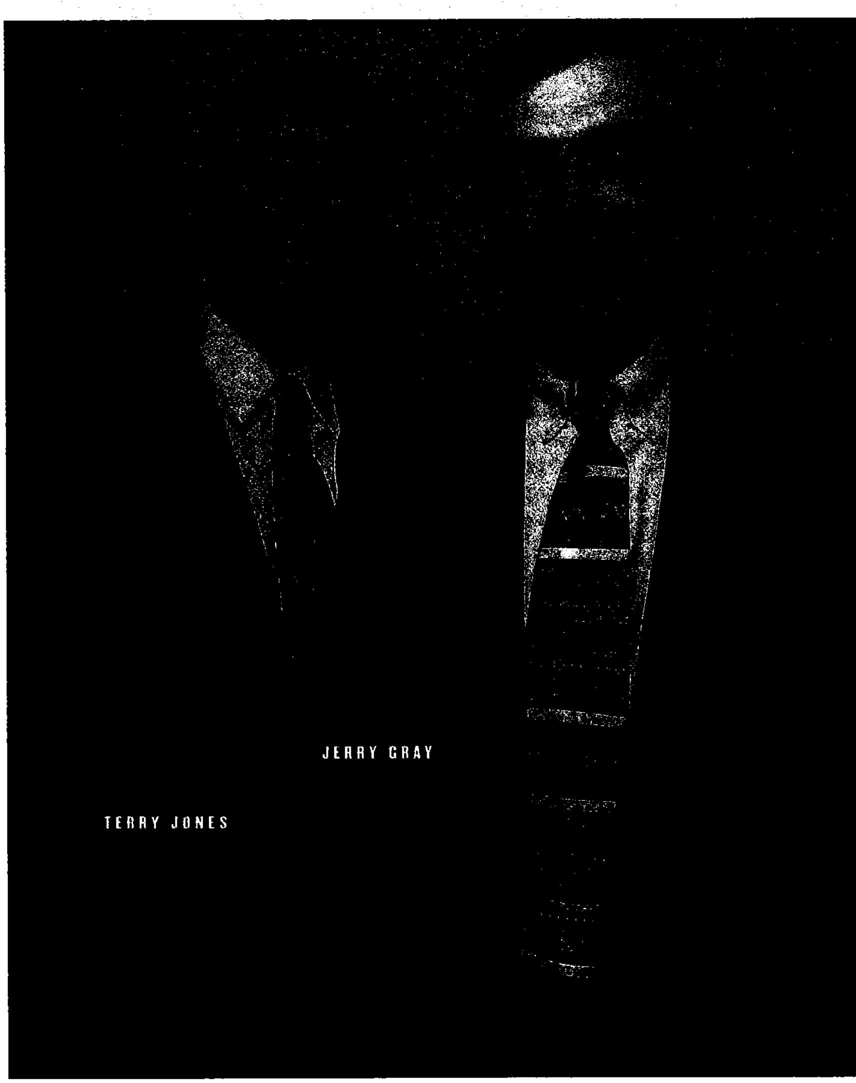
PHOTOGRAPH BY BRAD HINES

He works at Bel Air Investment Advisors, a Century City, Calif. firm that was just acquired by Boston-based State Street bank.

Besides risk tolerance, Powers looks at age, income level, expected market returns and occupation. Veteran actors and actresses have staying power, which translates into a lifetime of income that's pretty easy to calculate. For those stars, he can plow more money into stocks than bonds. Young actors are a different matter. Not only are their incomes not as secure, but they're likely to be in the process of accumulating assets—cars, homes and the like—so they need to keep their money in liquid accounts such as short-term bonds. "Someone brand new to the industry is tougher to judge than, say, Barbra Streisand, who has multiple sources of income," he says.

Powers starts clients out with 50% in equities and 50% in bonds and slowly shifts to 70% in stocks and 30% in bonds as their assets increase. He picks his own stocks with the help of two other in-house managers. While he talks regularly with Wall Street analysts and reads their research reports, Powers also collects his own intelligence, often meeting with executives of companies he is considering.

A company's management is key to making the cut of roughly 30 stocks Powers holds. A CEO must have a clear vision, but he must also be tied to the stock. Last year, Powers invested in Houston energy firm **Kinder Morgan** after meeting CEO Richard Kinder. Kinder Morgan, which owns and operates natural gas pipelines primarily in the Midwest, has a market cap of $6.1 billion and posted revenues of $2.7 billion in 2000. The CEO owns 22% of the company, is paid $1 a year and gets no options or bonuses. "He's totally tied to the company, so I'm confident that Richard Kinder will make decisions that are in the best interests of [shareholders]," he says.



Besides loyal management, Powers prefers market caps of at least $1 or $2 billion, plus three years of earnings and revenue growth in the double digits. "We're always looking for growth because, for tax purposes, you want to find stocks you're never going to sell," says Powers, who turns over about one-quarter of his holdings every year.

Powers cites **Freddie Mac** as a growth stock he's owned for years. Freddie Mac, which buys mortgages from lenders in order to increase the supply of funds for housing, routinely shows 13% to 15% annual earnings growth. According to Powers, the McLean, Va. company stands to benefit from increased issuance of mortgage-backed securities. "We thought it was undervalued last year in the low $40s, when people were worried about additional government intervention, and we increased our weighting," he says. Even at $70 a share, he still thinks Freddie Mac is attractive.

He also believes that **Tenet Healthcare** is a good buy. Powers bought the Santa Barbara owner and manager of hospitals over a year ago, when he says the market was ignoring it and it was trading in the low $20s. Today it's in the low $50s. He likes CEO Jeffrey Barbakow and believes the company, which has a

PHOTOGRAPH BY RANDY HARRIS

$16.5 billion market cap and reported revenues of $11.4 billion in 2000, will benefit from higher Medicare revenues over the next three to five years while cutting costs through increased outsourcing of labor.

As for tech, Powers reduced his exposure to the tech sector last year and continues to steer clear, believing that more tech gear is being produced than can be sold. Clients occasionally ask that he get them in on the latest craze, but he usually convinces them to stay away. "I tell them our job is to stick to what we know well," he says. "If we listen to every CNBC bubble, we'll lose our integrity."

JERRY GRAY AND TERRY JONES
MCCORMACK ADVISORS INTERNATIONAL

Clients: Gisele Bundchen, David Duval, Derek Jeter, Monica Seles

It should come as little surprise that most of the 400 clients who work with partners Jerry Gray, 45, and Terry Jones, 52, are athletes. That's because both investors work for McCormack Advisors International, a money-management company half-owned by Cleveland sports marketing powerhouse IMG (the other half is owned by Merrill Lynch).

Despite the steady stream of business from IMG, the pair sometimes have to convince rookies of the value of their services. "I like to present historical returns, including fixed income and the S&P 500, and show them various levels of risk," says Jones, describing his first encounters. "If they have no bias, then I start with a fairly aggressive portfolio."

A fairly aggressive portfolio consists of 70% stocks and 30% bonds. Jones and Gray might play with the allocation a little to compensate for high spending needs or other factors, but that mix suits most people. While the bond portion of their holdings is invested in intermediate bonds, their equity stake is a little less routine. Jones and Gray track about 70 stocks, investing in roughly 30 of them. They both have experience in research—Gray was an analyst at National City Bank in Cleveland and Jones used to manage pensions for components manufacturer Eaton, also in Cleveland—so they're equipped to dig into the details of a stock. In addition, they have Merrill's network of analysts to rely on.

When it comes time to buy, they stick to several guidelines. Typically they invest no more than 5% in one name. Companies must exhibit good earnings growth rates—at least 10% a year for five years—with the same management in place. And ideally there has to be some proprietary product or service that promises growth will be sustainable. "We look for a strong brand name, patent or low-cost advantage," says Gray.

One company that fits such a profile is **AIG**. The New York City-based insurance and financial services behemoth, which had revenues last year of $42 billion and has a $198 billion market value has a strong presence in Asia; earnings from that part of the world have historically grown 15% to 20% annually. AIG is also well positioned to take advantage of a growing market for property and casualty insurance in other parts of the world, Gray notes.

Similarly, they like **IBM**. Recently trading at $113 a share, IBM has a market cap of $196 billion and 2000 revenues of $88 billion. CEO Lou Gerstner has transformed IBM from a hardware manufacturer into a low-cost provider of technical services, says Gray, and that shift provides IBM with recurring revenues, crucial during hardware downturns. The caveat, Gray notes, is that IBM's strategic foresight will be put to the test when Gerstner retires soon: "With the new guy coming in, we're going to be watching IBM very closely."

Gray and Jones are not just growth investors. Recently, they've bought **United Technologies**, the Hartford company that makes everything from elevators to aircraft engines to heating systems. Gray says he likes United Technologies because its aerospace and defense division, which accounts for a third of total revenues, should do well with the new Administration's attention to defense spending. Plus, he notes, the $27 billion company is trading at just 1.3 times sales—with a hefty return on equity of around 20%.

Jones and Gray spend most of their time with jocks like Monica Seles and Derek Jeter. But their roster includes actors and models, such as Gisele Bundchen.

JONES AND GRAY RECENTLY BOUGHT UNITED TECHNOLOGIES BECAUSE OF ITS AEROSPACE AND DEFENSE DIVISIONS. THE $27 BILLION COMPANY IS TRADING AT JUST 1.3 TIMES SALES.

Another value find Jones points to is **Goodrich**. Formerly BF Goodrich, the Charlotte, N.C. company has a market cap of $3.8 billion and recently traded at $37 a share. It used to be known for its tires, but today it makes aerospace equipment, including engines and landing systems. "They're transforming themselves into a defense and aerospace company and that wasn't recognized by the market," says Jones. He bought when it was trading at eight times earnings six months ago. The stock has gained 23%

since then, now trading for 10 times earnings, but Jones believes it has room to go higher.

PHIL KENNER ASSANTE

Clients: 'N Sync, Mark Messier

Since he spends 250 days a year flying around the world meeting clients, Phil Kenner can only be reached on his two cell phones. One is for acquaintances, family and friends. The other, dubbed the "Bat Phone," is strictly for clients. "It's like on the television show," says Kenner. "Only my clients, like the Commissioner, get to use that one."

Kenner, 32, works for Assante, a Winnipeg, Manitoba money-management firm with $2.8 billion under management. As director of the private-client group, he oversees $200 million for more than 100 clients. About 70% of his clients are actors, singers, athletes and models.

When he meets with first-timers, Kenner puts together a generic asset-allocation model, with 60% in equities and 40% in bonds. Then, regardless of the client's profession, he runs them through a list of 25 questions to determine their risk comfort, cash flows and spending needs. From their answers he tweaks his generic allocation into customized portfolios.

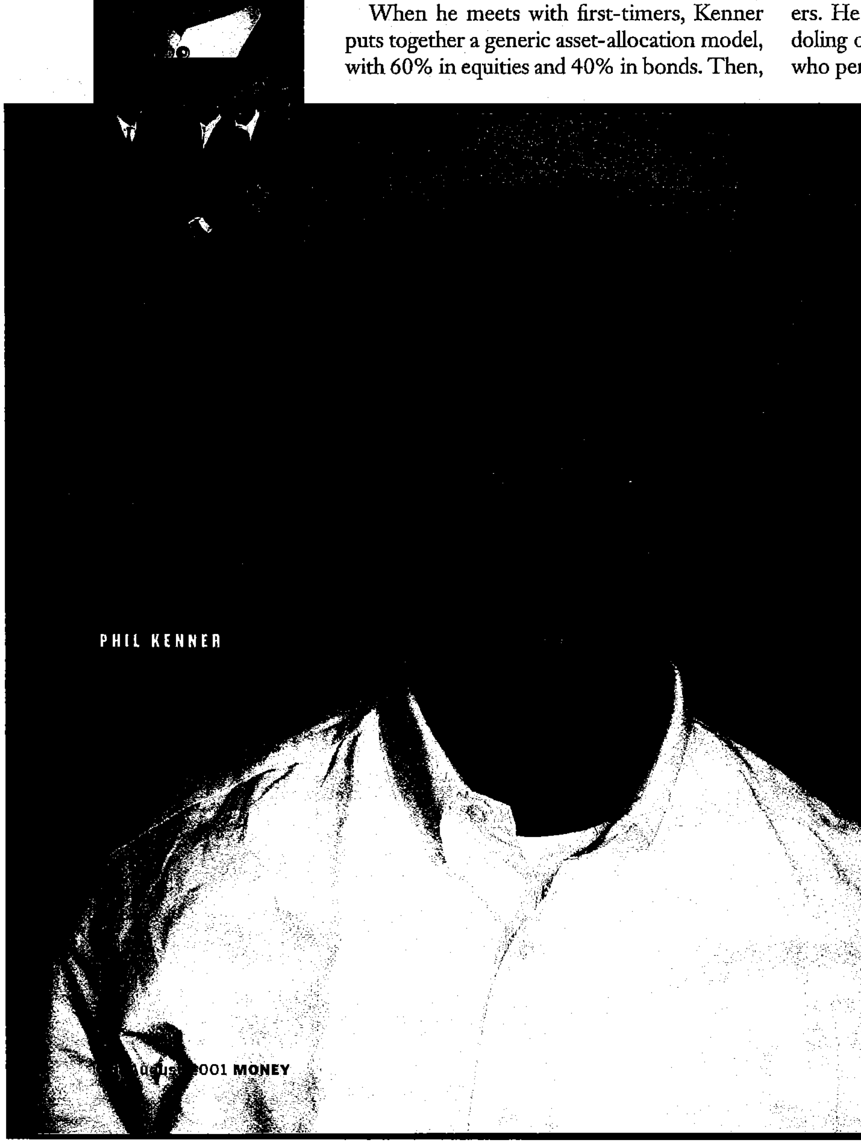
By far the trickiest part of Kenner's job, he says, is trying to determine a client's time horizon and cash flow. Most financial planners can determine those numbers by projecting out a steady stream of income. But Kenner's clients aren't predictable. With performers, you can't determine income beyond a movie or recording contract. Nor can you tell how long their careers will last. "In retrospect, it's easy to say Steven Tyler [of Aerosmith] was going to sing for 30 years, but I can't say that about 'N Sync," he says, referring to his clients.

When it comes to specific investments, Kenner relies on a cadre of private money managers. He is, in effect, a manager of managers, doling out his clients' money to the specialists who perform best for him, in a variety of asset classes. These days, Kenner is keen on value stocks, both domestic and international. "Value outperforms growth over the long term, and we're here to create stability, not hit home runs every year," he says. One stock he's put his clients into is **American Express**. The reason? It trades close to its 52-week low of $34 a share despite being a global leader in travel, financial advisory services and international banking.

Right now, Kenner also likes **Kroger**, one of the nation's leading food retailers. It has a strong presence in 20 of the country's 50 largest markets and boasts a wide range of retailing formats, including supermarkets and convenience stores. Yet at a recent $25 a share, it's trading at a discount to its peers.

Do his clients agree with his value bent? He's got a proven track record and tries to educate them on his approach. (He contacts each client at least twice a month.) What if they disagree? Kenner says they have two options: They can go elsewhere for advice—or they can tell him to do what they want. "Look, one of my clients just signed one of the three richest contracts in pro sports," Kenner notes, "so I still have to let them make their own choice."

Seventy percent of Kenner's clients are celebrities, such as hockey great Mark Messier and last year's No. 1 music group, 'N Sync.



PHIL KENNER

PHOTOGRAPH BY BRAD HINES

Sonia Moskowitz/Globe (Messier); Fitzroy Barrett/Globe ('N Sync)

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